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FISCAL IMPACT STATEMENT

LS 6004

BILL NUMBER: HB 1235

NOTE PREPARED: Oct 26, 2007

BILL AMENDED:

SUBJECT: Deduction for Postsecondary Tuition.

FIRST AUTHOR: Rep. Blanton

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides a deduction to an individual in each taxable year for qualified tuition and related expenses paid by the individual during the taxable year. The bill limits the amount of the deduction to \$4,000 per taxable year for an individual filing a single return and \$8,000 per taxable year for a couple filing a joint return. It also provides for a lifetime limit of \$20,000 of deductions for qualified tuition and related expenses per individual for all taxable years.

Effective Date: January 1, 2009.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new deduction. The DOR's current level of resources should be sufficient to implement the new deduction.

Explanation of State Revenues: *Summary* - The bill creates an Adjusted Gross Income (AGI) Tax deduction of up to \$4,000 per year for a single filer and up to \$8,000 per year for a joint filer for "qualified tuition and related expenses" required for enrollment and attendance of the taxpayer, taxpayer's spouse, or any dependent of the taxpayer at an eligible institution of higher education.

The revenue loss for deductions relating to higher education tuition and expenses for dependents of taxpayers could total \$25 M to \$26 M annually beginning in FY 2010. The impact of tuition and expenses paid by a taxpayer for (1) his or her own enrollment at a higher education institution or (2) for graduate and professional education of a dependent is indeterminable. However, these expenditures likely would increase the revenue loss described above.

Background Information - The deduction in a taxable year applies to the qualified tuition and related

expenses paid by the taxpayer during the taxable year. In addition to the annual deduction limits of \$4,000 for single filers and \$8,000 for joint filers, the bill provides for a lifetime maximum deduction of \$20,000 per taxpayer. The effect of the lifetime deduction limit on the persistence or future growth in the revenue loss from the deduction is unknown. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund. Since the deduction is effective beginning in tax year 2009, the fiscal impact would begin in FY 2010.

Department of Education survey data for fall 2004 suggests that about 82% of public high school graduates enroll in higher education institutions, with about 75% of this group enrolling in 4-year institutions and 25% enrolling in 2-year institutions or vocational/technical schools. Assuming the same percentages for the nonpublic and home school graduate populations, there could potentially be 210,000 dependent children who are Indiana residents enrolled in higher education institutions each year. Based on the distribution of children per family and single and joint filer status, it is estimated that about 75,000 joint filers and 42,000 single filers could potentially be in a position to deduct qualified higher education tuition and expenses for these students. Totals relating to taxpayers or spouses of taxpayers who are attending a higher education institution are indeterminable. The maximum deduction is assumed for the estimates based on higher education tuition and fee data from the U.S. Department of Education.

“Qualified tuition and expenses” under Section 25A(f)(1) of the Internal Revenue Code is defined as tuition and fees required for the enrollment or attendance of the taxpayer, taxpayer’s spouse, or taxpayer’s dependent at an “eligible educational institution.” (Note: To be considered a “dependent” under this provision, a child must not have attained the age of 19 by the end of the calendar year or must be a student that has not attained the age of 24 by the end of the calendar year.) An “eligible educational institution” is defined as an institution (1) that is described in 20 U.S.C. 1088 of the Higher Education Act of 1965 (Education Act) as in effect on the date of enactment of Section 25A (August 5, 1997); and (2) that is eligible to participate in federal financial aid programs described in Title IV of the Education Act. As of August 5, 1997, 20 U.S.C. 1088(a)(1) generally defined an “institution of higher education” as (1) an accredited postsecondary educational institution (as defined in 20 U.S.C. 1141(a) (a public or nonprofit institution of higher education)); (2) a proprietary institution of higher education; and (3) a postsecondary vocational institution.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the proposed deduction would result in a significant decrease in taxable income, counties imposing local option income taxes would likely experience a substantial decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: OFMA Income Tax databases, 2000-2005; *Public High School Graduates' Higher Education Intent by County 2004/2005*, Department of Education, compiled at STATS Indiana, <http://www.stats.indiana.edu>; Tuition and Fee Costs from: U.S. Department of Education, National Center for Education Statistics, 1987-88 through 2003-04 Integrated Postsecondary Education Data System, "Fall Enrollment Survey" (IPEDS-EF:87-99) and "Institutional Characteristics Survey" (IPEDS-IC:87-99) and Spring 2001 through Spring 2003.

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